

# Seismic reflections

## What's next for UK North Sea?

The annual Oil & Gas UK Economic Report highlights the difficulties that the UK North Sea is facing in attracting investment and staving off production declines. In 2011, the UK produced 19% less oil and gas than in 2010, a significantly larger decline than its 7.5% recent trends. Exploration wells drilled were at the lowest levels since at least 2002 and, while forecasts suggest an increase in 2012-14, production is unlikely to be above 2011 levels. The industry faces an uphill battle to keep production levels steady.

### Production fell 19% y-o-y in 2011

Against a historical trend of 7.5%, UK oil and gas production fell over 19% y-o-y in 2011. This was due to a number of factors: (i) 10 large fields produced meaningfully less than expected as safety issues forced shutdowns; (ii) warmer weather reduced gas demand; (iii) an ageing infrastructure forced more planned and unplanned shutdowns; and (iv) less new production came online due to increases in tax rates in 2006 and the reduction in investment following the global economic crisis. The net result for the UK treasury was a fall in tax receipts of £2.2bn vs 2010.

### Number of exploration wells lowest in a decade

The number of exploration wells drilled in 2011 was at its lowest level since at least 2002 and only a third of the number drilled in 2008. While the wells drilled were relatively more successful, most discoveries were small and made close to existing fields as companies prioritised lower-risk exploration and appraisal over outright new exploration. This is despite high oil prices that have generally implied increased activity over time. This was due in part to stressed capital access for independents and a tight rig market.

### Plenty of oil still to find

Oil & Gas UK estimates that between 3bnboe and 9bnboe are still to be found, and 15bnboe to 24bnboe still to be extracted. Opportunities therefore still exist for independent companies such as Premier, Cairn, Valiant and Faroe to find oil and create value for shareholders.

### 2012 and beyond

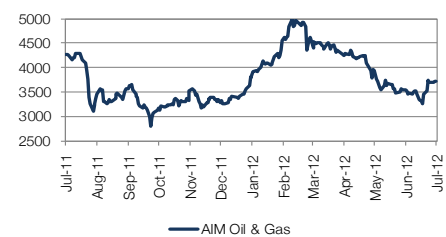
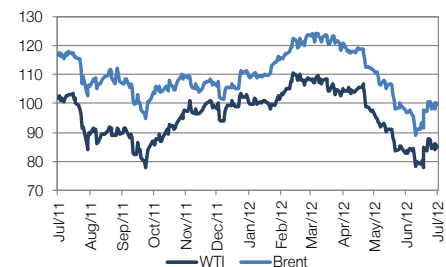
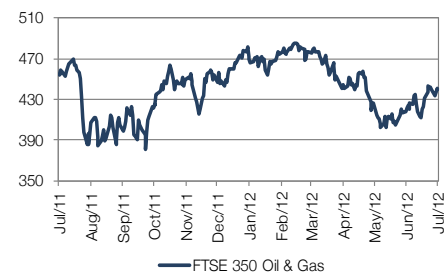
Oil & Gas UK does not expect a pick-up in production in 2012, and volumes from current fields are expected to halve by 2020. Significant investment is required to bring new fields online to offset this decline and keep ageing facilities safe. While Oil & Gas UK believes that this is possible, it will depend on future discoveries and higher levels of investment. Exploration levels are forecast to increase in 2012, but will still be somewhat below 2007/08 levels and lower exploration levels now will necessarily mean fewer fields to develop in future. Exploration success rates seem to be low YTD. Discovery and exploitation of these resources will depend on an industry contending against increasing costs, ageing infrastructure, a tight rig market (the usage rate in 2013 is already 70%),



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increased fiscal terms and uncertain economic times.

### Exhibit 1: Best and worst performers

		1 week			
No.	Best performers	% change	No.	Worst performers	% change
1	PROVIDENCE RESOURCES PLC	16.1%	1	GASOL PLC	-15.6%
2	FRONTERA RESOURCES CORP	10.9%	2	CADOGAN PETROLEUM PLC	-15.3%
3	PETROCELTIC INTERNATIONAL	9.6%	3	GLOBAL ENERGY DEVELOPME-REGS	-13.8%
4	BANKERS PETROLEUM LTD	6.9%	4	EUROPA OIL & GAS HOLDINGS	-10.4%
5	ANTRIM ENERGY INC	6.8%	5	ROCKHOPPER EXPLORATION PLC	-10.4%

		1 month			
No.	Best performers	% change	No.	Worst performers	% change
1	MEDITERRANEAN OIL & GAS PLC	57.1%	1	MAX PETROLEUM PLC	-67.5%
2	NAUTICAL PETROLEUM PLC	51.5%	2	INDEPENDENT RESOURCES PLC	-46.9%
3	CHARIOT OIL & GAS LTD	48.7%	3	LOCHARD ENERGY GROUP PLC	-31.2%
4	AMERISUR RESOURCES PLC	46.7%	4	AURELIAN OIL & GAS PLC	-26.7%
5	PETROCELTIC INTERNATIONAL	38.7%	5	KEA PETROLEUM PLC	-25.0%

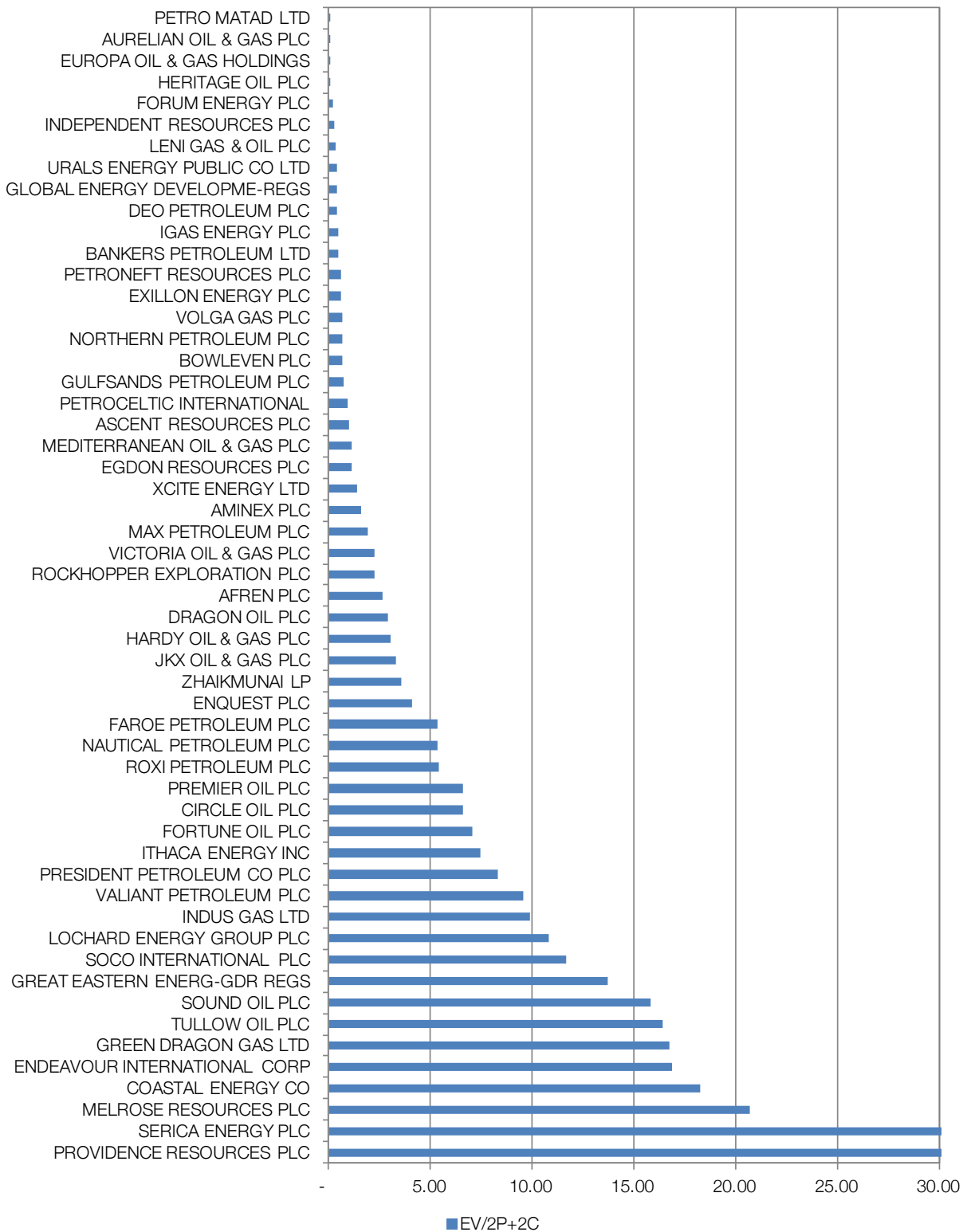
		3 months			
No.	Best performers	% change	No.	Worst performers	% change
1	MEDITERRANEAN OIL & GAS PLC	92.5%	1	MAX PETROLEUM PLC	-72.9%
2	FORUM ENERGY PLC	90.2%	2	INDEPENDENT RESOURCES PLC	-66.9%
3	GASOL PLC	80.0%	3	PETRO MATAD LTD	-60.1%
4	AMERISUR RESOURCES PLC	63.8%	4	PRESIDENT PETROLEUM CO PLC	-51.9%
5	NAUTICAL PETROLEUM PLC	43.4%	5	AURELIAN OIL & GAS PLC	-49.4%

		6 months			
No.	Best performers	% change	No.	Worst performers	% change
1	PROVIDENCE RESOURCES PLC	153.6%	1	PETRO MATAD LTD	-73.3%
2	FORUM ENERGY PLC	120.0%	2	INDEPENDENT RESOURCES PLC	-69.6%
3	COVE ENERGY PLC	111.2%	3	MAX PETROLEUM PLC	-67.8%
4	AMERISUR RESOURCES PLC	97.4%	4	EXILLON ENERGY PLC	-64.5%
5	MEDITERRANEAN OIL & GAS PLC	87.8%	5	PETRONEFT RESOURCES PLC	-60.1%

		1 year			
No.	Best performers	% change	No.	Worst performers	% change
1	COVE ENERGY PLC	182.5%	1	PETRO MATAD LTD	-91.5%
2	FORUM ENERGY PLC	169.1%	2	FRONTERA RESOURCES CORP	-82.1%
3	PROVIDENCE RESOURCES PLC	155.6%	3	AURELIAN OIL & GAS PLC	-81.4%
4	AMERISUR RESOURCES PLC	73.0%	4	BOWLEVEN PLC	-81.1%
5	KEA PETROLEUM PLC	61.5%	5	PETRONEFT RESOURCES PLC	-78.9%

Source: Bloomberg

**Exhibit 2: EV/2P + 2C rankings**



Source: Bloomberg, company releases, Edison Investment Research

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